

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY JIDDA IMMEDIATE

INFO AMEMBASSY CAIRO PRIORITY

C O N F I D E N T I A L STATE 115891

EXDIS

E.O. 11652: GDS

TAGS: EFIN, EG

SUBJECT: EGYPTIAN B.O.P.

1. IN ORDER TO FACILITATE UNDER SECRETARY ROBINSON'S DISCUSSIONS WITH MINISTER ABA KHAYL, REQUEST EMBASSY PROVIDE IN ADVANCE SUMMARY OF EGYPTIAN BALANCE OF PAYMENTS PROBLEM AND FOREIGN EXCHANGE MANAGEMENT DEVELOPED BY THE U.S. GOVERNMENT TEAM IN CONSULTATION WITH EGYPTIANS AND INTERNATIONAL AGENCY TECHNICIANS AS FOLLOWS:

2. THE FINANCE MINISTRY PROVIDED ITS FOREIGN EXCHANGE BUDGET, SUMMARIZED BELOW (L.E. IN MILLIONS):

A. GOODS AND SERVICES 1974 1975

---- ACTUAL BUDGET

EXPORTS OF GOODS	575	641
IMPORTS OF GOODS	-1,426	-2,182
(CURRENT IMPORTS)	(-1,308)	(-1,747)
(CAPITAL IMPORTS)	(-118)	(-435)

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TRADE DEFICIT -851 -1,541

SERVICES NET	97	136
(EXPORTS)	(173)	(260)
(IMPORTS)	(-76)	(-124)
BALANCE ON GOODS AND SERVICES	-754	-1,405
(OF WHICH BILATERAL AGREEMENTS)	(PLUS 57)	(PLUS 46)

B. LONG AND MEDIUM-TERM DEBT SERVICE:

FOREIGN EXCHANGE DEBT	-191	-211
(GEN. AND INTL. OBLIGATIONS)	(-47)	(-57)
(SUPPLIER CREDITS)	(-114)	(-120)
(OTHER OBLIGATIONS - FREE FX)	(-30)	(-34)
BILATERAL AGREEMENTS (NET)	-32	-192
(OTHER RECEIPTS-BILATERAL)	(79)	
(POSTPONED CAPITAL PAYMENTS)	(5)	(38)
(PAYMENT AGREEMENT OBLIGATIONS)	(-44)	(-58)
(OTHER OBLIGATIONS-BILATERAL)	(-72)	(-172)

TOTAL DEBT SERVICE	-223	-403
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C. GRANT AND MEDIUM AND LONG-TERM

----- FINANCING

CASH LOANS AND GRANTS	448	508
(ARAB SUBSIDY)	(73)	(73)
(OTHER RECEIPTS-FREE FX)	(375)	(435)
LONG AND MEDIUM TERM (TIED) LOANS	133	542
(SUPPLIER CREDITS)	(116)	(230)
(PROJECT LOANS) NOTE BELOW	(17)	(312)
COTTON FINANCING	25	

TOTAL FINANCING (EXCLUDING

' BANKING FACILITIES)	581	1,075
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BALANCE OF PAYMENT DEFICIT	-396	-733
BANKING FACILITIES (NET)	361	98
(CONTRACTED)	(780)	(798)

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(REPAID)	(-419)	(-700)
UNFINANCED DEFICIT	-35	-635

NOTE - SHOWN AS A POSTPONED CAPITAL PAYMENTS (FREE).

3. THE GOE MINISTERS ALSO PROVIDED THE FOLLOWING FIGURES:

-- AN OVERALL GAP OF LE 635 MILLION (\$1,625 MILLION),

ON THE LETTER OF CREDIT/CONTRACT BASIS, AFTER ASSUMING GROSS FOREIGN AID, INCLUDING GRANTS, COMMODITY LOANS, DEVELOPMENT PROJECT LOANS AND SUPPLIERS CREDITS, OF \$2,850.

-- CURRENT IMPORTS UP BY 33 PERCENT, CAPITAL GOODS BY NEARLY 300 PERCENT, IN MONEY TERMS, OVER 1974; THE TOTAL IMPORT BILL WOULD, IF FULLY FINANCED, EXCEED 35 PERCENT OF GNP.

TWO POSSIBLE ADJUSTMENTS OF THE OVERALL GAP, ON THE FOREIGN EXCHANGE BUDGET BASIS, WERE SUGGESTED BY SENIOR GOE OFFICIALS -- DEFERRAL OF AT LEAST A SUBSTANTIAL PORTION OF PLANNED REPAYMENTS TOTALLING LE 172 MILLION ON BILATERAL TRADE ACCOUNT DEBTS TO THE USSR AND EASTERN EUROPEAN COUNTRIES; AND A LIMITATION OF NEW SHORT-TERM FOREIGN BANK CREDITS TO THE AMOUNT OF REPAYMENTS OF SUCH CREDITS. FURTHERMORE, IF THE CAPITAL GOODS IMPORTS ARE LIMITED TO THE AVAILABILITY OF CAPITAL PROJECT AID FUNDS, THE LE 123 MILLION DEFICIT IN THIS ACCOUNT WILL NOT, IN FACT, OCCUR. THESE AND SOME MINOR ADJUSTMENTS MIGHT PRODUCE A NET REDUCTION OF LE 150-200 MILLION;

----- THE SENIOR EGYPTIAN TECHNICIANS ALSO ACKNOWLEDGED THAT CURRENT (NON-CAPITAL GOODS) IMPORTS COULD BE HELD SUBSTANTIALLY BELOW THE FOREIGN EXCHANGE BUDGET, FURTHER REDUCING THE DEFICIT.

4. THE NEWLY INSTALLED ECONOMIC MINISTERS STRESSED THEIR FEARS OF DOMESTIC POLITICAL UNREST IF CONSUMER RATION INCREASES WERE REVERSED OR SHORTAGES RESULTING FROM DOMESTIC PRODUCTION SHORT-FALLS WERE NOT OFFSET BY IMPORTS. THEY OFFERED NO PROSPECT OF A REDUCTION OF CONSUMER IMPORTS. THE MINISTERS WERE LESS ADAMANT IN DEFENDING THE PLANNED BUILDUP OF PRODUCER GOODS STOCKS, CONFIDENTIAL

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BUT THEY CONTENDED THAT ASSURED SUPPLY WOULD HELP TO RAISE THE NOTORIOUSLY LOW PRODUCTIVITY OF EGYPT'S INDUSTRIAL PLANT. AT THIS POINT IN THE YEAR, IT MAY BE

IMPORT ORDERS FOR CONSUMER AND INTERMEDIATEGOODS BY MORE THAN 10 PERCENT BELOW THE TARGET FIGURE OF LE 1,747. ASSUMING EQUILIBRIUM IN THE CAPITAL ACCOUNT AND SUBSTANTIAL DEFERRAL OF THE ECONOMIC DEBT OBLIGATION OF LE 172 MILLION TO THE USSR AND EASTERN EUROPE, THERE IS A ROUGH BASIS FOR CALCULATING AN OVERALL DEFICIT OF LE 300 TO LE 350 MILLION (APPROXIMATELY \$800-\$900 MILLION). KISSINGER

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